



CalPERS Health Benefits Program



Public Employee Post-Employment Benefits Commission

Rancho Cucamonga, CA

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California Public Employees' Retirement System



Basic Facts

- Nation's 3rd largest health care purchaser
 - No. 1: Federal Government
 - No. 2: General Motors
- Spend \$5 billion per year for health benefits
 - State government
 - 1,100 contracting public agencies



Membership

- 1.2 million enrollees
 - Actives
 - Retirees
 - Their family members
- 75% actives; 25% retirees
- 61% State; 39% public agencies & schools
- 69% in HMO; 25% in PPO; 6% in Assoc. Plan



Health Plan Offerings

- Two Statewide HMOs
 - Kaiser
 - Blue Shield
- One Regional HMO
 - Western Health Advantage
- Two Self-Funded PPOs
- Some public safety officer association plans



Statutory Authority

- Public Employees' Medical and Hospital Care Act (PEMHCA)
- In 1962 – established CalPERS Health Benefits Program for State employees
- In 1967 – expanded to include other public employers
- Requires employer contribution for health care for both active and retired employees



PEMHCA Employer Requirements

- Provide opportunity for employees to enroll in a CalPERS health plan
- Contribute toward health premiums



Program History

- Mid-1980s – 25+ health plan offerings
- Late-1980s -- standardized HMO benefits, pushed plans for premium decrease
- 1999 – premiums started rising again
- 2003 – premiums increased by about 25% over previous year



ACTION	COMMENT
Ended relationship with Health Net and PacifiCare Health Maintenance Organizations (HMOs) in 2003	Avoided \$77 million cost increase for state and local health programs.
Raised office visit co-payments to \$10 in 2002, as well as other co-payment increases.	First changes in co-payments for HMO members since 1993.
Eliminated high-cost hospitals from Blue Shield provider network beginning in 2005.	Saved an estimated \$45 million.
Adopted regional pricing.	Prevented large-scale exodus of local participants in Southern California, which would have diminished health plan's bargaining power.
Provided incentives to purchase over-the-counter drugs and refill prescriptions by mail.	Saved an estimated \$27 million.
Moved certain age 65 and older members from Basic to Medicare plans.	Saved an estimated \$19 million.
Building large purchaser coalition, Partnership for Change, to enhance bargaining power.	May produce uniform standards for hospital quality and pricing.
Encouraging health plan partners' disease management programs.	May produce savings and improved care for conditions like diabetes and asthma.

Selected CalPERS Cost Savings Measures Since 2002

**\$168 million
saved**

Source: LAO Report 2/17/06



Recent Premiums

- 2005 & 2006 – single-digit, below market trend
- 2007 – started rising again
 - 12% overall increase
 - 11.6% Basic HMO increase



Quality of Care Initiatives

- Health Care Purchasers' Coalition
- Partnership for Change
 - CA Hospital Assessment and Reporting Taskforce (CHART)
 - Hospital Value Initiative

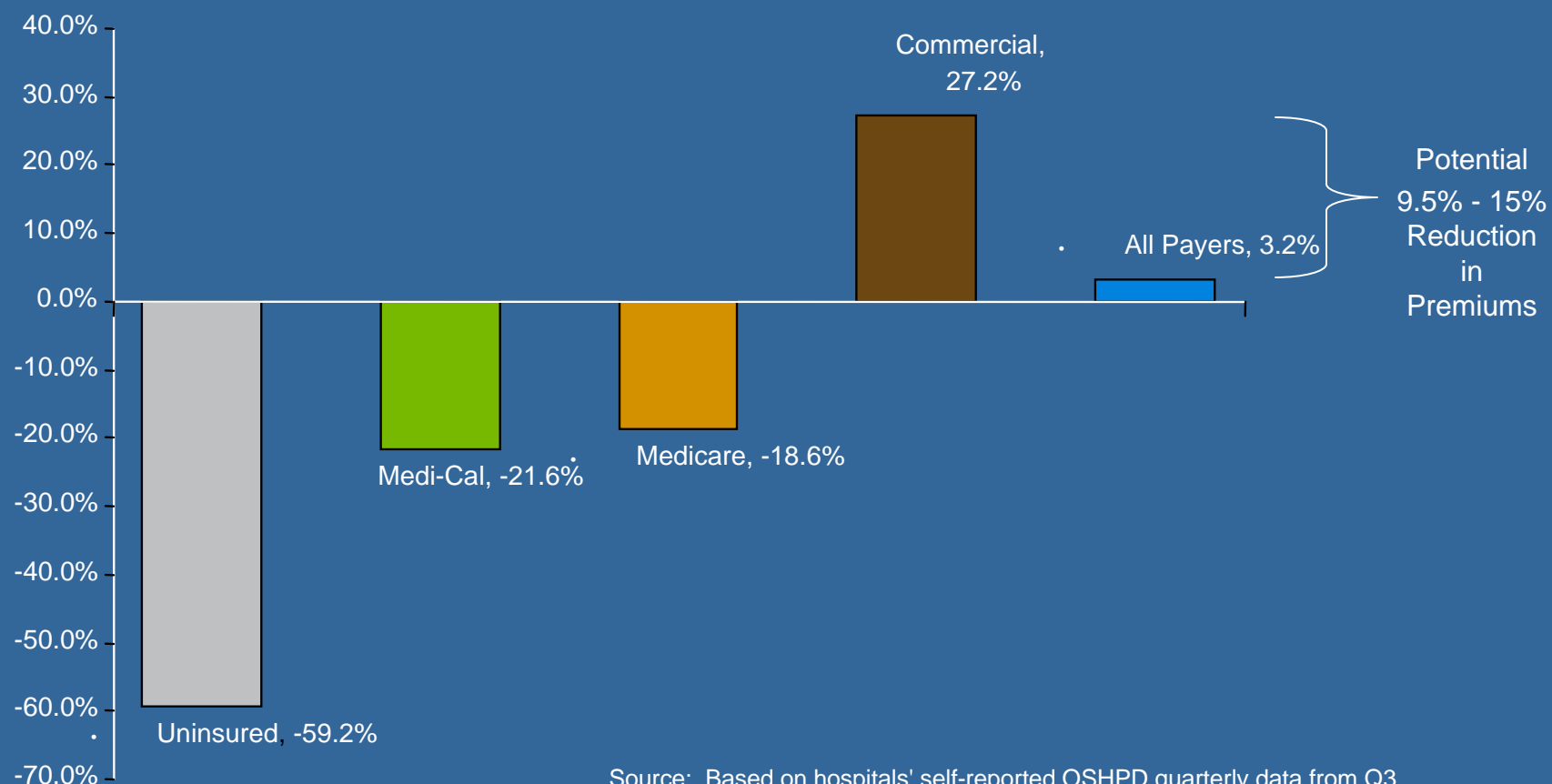


Cost Containment Challenge

- Health care cost drivers
 - Chronic disease
 - New technology
 - Drugs
 - Hospital and physician variations
 - Lack of incentives for hospitals
 - 6.5 million uninsured Californians



Profit Margin for BSC Hospitals



Source: Based on hospitals' self-reported OSHPD quarterly data from Q3, 2004 to Q2, 2005 for Blue Shield's network choice 8 (NC8) facilities only



CA Employers' Retiree Benefit Trust Fund

- Launched March 1, 2007
- PEMHCA employers can make regular contributions
- Income from investment earnings helps pay for retiree health benefit costs
- AB 554 (in Legislature)



Benefits of Pre-funding

- Reduced OPEB costs as result of investment earnings
- Higher discount rate assumptions
- Reduced liability on balance sheet
- Impact on bond rating
- Improved financial and health security for employees



City of Thousand Oaks

- First employer to join CA Employers' Retiree Benefit Trust Fund
- 2007-08 OPEB liability prior to pre-funding: \$25 million
- Liability reduced to \$17 million by pre-funding



Health Care Reform in CA

- Opportunities for positive change
- Many plans on the table
 - Gov. Schwarzenegger
 - Sen. Perata
 - Assembly Speaker Nunez



Federal Health Care Initiatives

- Supporting legislation to provide for generic approval process for biopharmaceuticals
- Supporting legislation to promote use of health IT



Structural Reform is Needed To Protect Health Security For Everyone